

Historic, Archive Document

Do not assume content reflects current scientific knowledge, policies, or practices.

166-3
M68
4p. 2

FARM CREDIT ADMINISTRATION
UNITED STATES DEPARTMENT OF AGRICULTURE
WASHINGTON, D. C.

LIBRARY
CURRENT SERIALS
JUL 17 1943
U. S. DEPARTMENT OF AGRICULTURE

FARMERS' COOPERATIVE DISCONTINUANCES
1875-1939

By
W. W. COCHRANE
and
R. H. ELSWORTH

COOPERATIVE RESEARCH AND SERVICE DIVISION

Miscellaneous Report No. 65

June 1943

INV. '60

CONTENTS

	<u>Page</u>
Distribution of discontinued associations	4
Years of organization	5
Kinds of cooperatives	7
Types of associations	8
Characteristics and practices	8
Membership of associations	11
Dollar volume of business	12
Manner of discontinuance	13
Years of discontinuance	15
Ten-year peak periods of discontinuances	16
Annual rates of discontinuance	19
Longevity of discontinued cooperatives	20
Losses by shareholders and creditors	22
Losses of capital	22
Losses by creditors	23
Losses on products	23
Previous studies of cooperative discontinuances	24
Discontinuances in the United States	25
Discontinuances in Canada	26
Reasons given for discontinuance	26
Causes for cooperative discontinuance	32
Leadership neither able nor resourceful	32
Management ineffective	33
Members neither understood nor practiced cooperation	33
Associations could not adjust to new conditions	34
Membership rejuvenation neglected	34
Cooperation discarded	34
Promoter activity	35
Unavoidable causes	35
Summary	36
Selected list of references	37

FARMERS' COOPERATIVE DISCONTINUANCES.
1875 - 1939

By

W. W. Cochrane
Junior Economist

and

R. H. Elsworth
Agricultural Economist¹

Farmers' marketing and purchasing cooperatives² are comparatively long-lived enterprises. At the end of 1939 - the date of the last official reckoning - the nearly 26,000 associations of record,³ including both those still active and those now out of business, had to their credit approximately 353,000 "life-years." By "life-year" is meant one association operating for one year.

Fifty-eight percent of the total life-years for farmers' marketing and purchasing cooperatives belong to associations which were still active at the close of 1939. The 90 oldest of this group had been in business at that time for more than 50 years. Nearly 500 associations had 40 years or more to their credit. More than 1,000 organizations had been operating between 30 and 40 years. In round figures 70 percent of the associations whose doors were open at the beginning of 1940 had been in business for more than 10 years. The average length of activity for the associations operating at that time was 18.4 years. Associations engaged in marketing dairy products had an average of 25.1 years, and farmers' cooperative elevators an average of 23.5 years.⁴

Even associations that had discontinued prior to the close of 1939 had an average length of life of nearly 10 (9.9) years. This fact gains in

¹Mr. Cochrane, who is now with the Armed Forces, examined the 14,655 records which are the basis of this report, directed the tabulation of the data, and prepared the original draft of the manuscript. Mr. Elsworth is responsible for the greater part of the text in its present form and for the tables and charts. The authors acknowledge their indebtedness to Miss Grace Wanstall and Miss H. L. Johnston of the Cooperative Research and Service Division for assistance in preparing this material for publication.

²This report includes only associations marketing farm products or purchasing farm supplies which discontinued prior to the close of 1939, and for which out-of-business data were available.

³As of December 31, 1939, there were data for 11,294 active associations and 14,655 out of business, a total of 25,949.

⁴Elsworth, R. H. and Wanstall, Grace, Farmers' marketing and purchasing cooperatives, 1863-1939, F.C.A., Misc. Rpt. 40, 36 pp., illus., 1941. See p. 36.

Discontinued Farmers' Cooperatives, 1875-1939

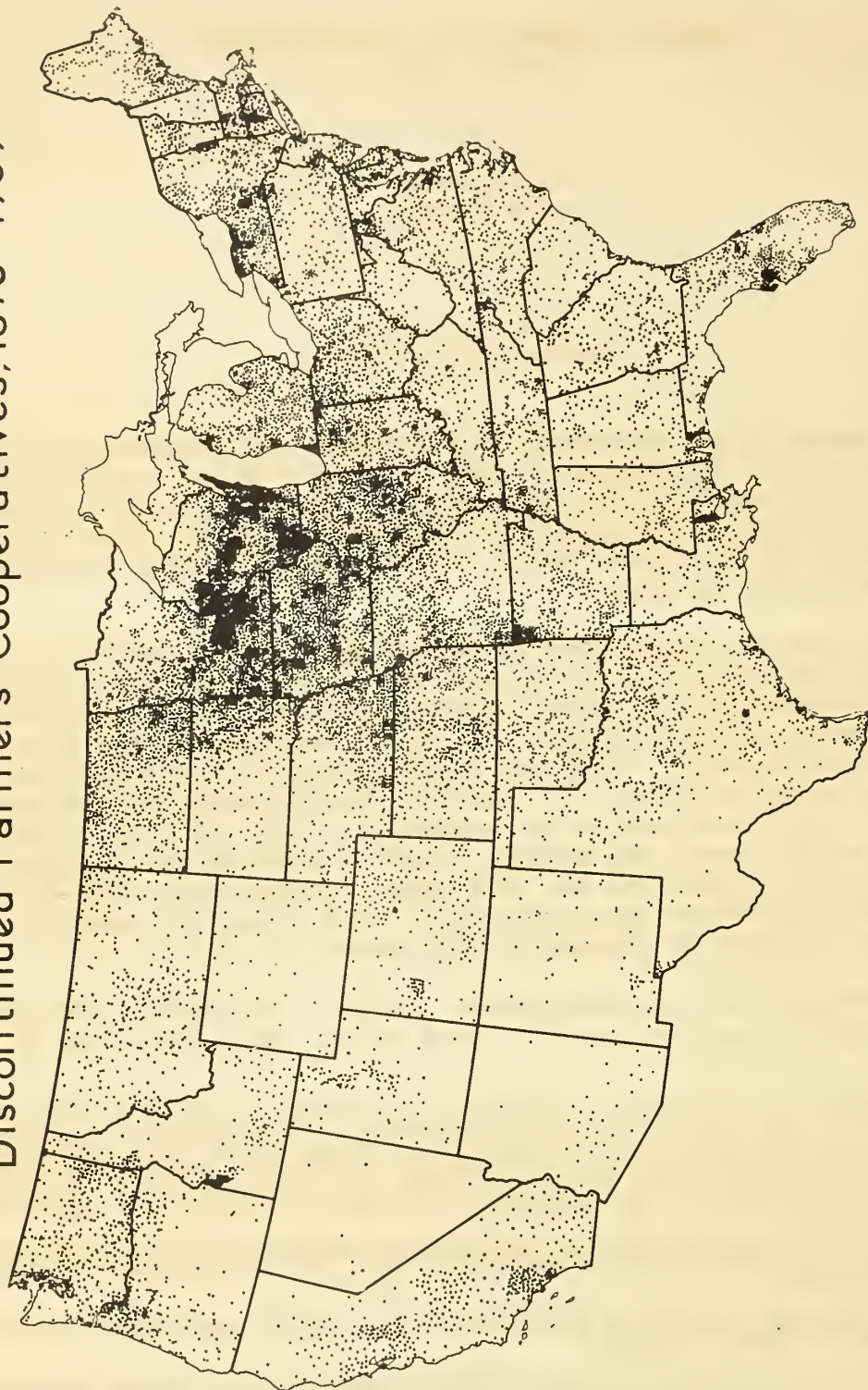


Figure 1. - Farmers' cooperatives have discontinued business in every State and agricultural section of the country. More than one-half of the out-of-business associations, however, are concentrated in the North Central geographic division, and over 1,000 discontinuances have been reported in each of the three States: Wisconsin, Minnesota, and Iowa.

significance when it is realized that most of the discontinued associations were small local enterprises often under-financed and without high grade management.⁵

In the discard at the close of 1939 were 14,655 discontinued cooperatives, the accumulation of the preceding sixty-odd years. This group furnished the data for the present study (figure 1).⁶ Those concerned with the handling of the material have hoped that by sifting, resifting, classifying, and reclassifying the available facts, reasonably accurate clues might be discovered to those factors which insure success as well as those that hasten discontinuance.

The term "cooperative discontinuance" as used in the study is broad and inclusive. All farmers' marketing or purchasing associations known to have lost their individual existence prior to December 31, 1939, and for which definite information was available were included, whether they were (1) economic failures with no losses to creditors, (2) business failures with losses to creditors, stockholders, and patrons, (3) business consolidations, (4) reorganizations, or (5) transfers of assets and goodwill by sale, perhaps at a profit.

The collection of data included in the following pages began more than 25 years ago - in the early days of what is now the Cooperative Research and Service Division of the Farm Credit Administration. As reports were received that a cooperative had ceased to operate an inquiry was sent to ascertain the cause or causes of discontinuance. Reports from disinterested economists would have been of great value, but only rarely was this type of information forthcoming. In most cases data were supplied by (1) a former officer or employee, frequently the ex-manager; (2) interested townspeople such as the postmaster, county agent, or liquidating agent; and (3) occasionally a member-patron. Ex-officials furnished the out-of-business records for about 52 percent of the cases, managers and their assistants for about 30 percent, and interested townspeople for about 18 percent. Not all of those reporting were without bias.

⁵Discontinuance, although the subject of this report, is only a minor phase of farmer cooperative history. Many of the associations operating today have been in business for 30, 40, or 50 years with the prospect of many more years of useful service in behalf of their farmer members.

The 10,550 associations that were active during the 1941-42 marketing season reported a total membership of 3,600,000 and they handled business amounting to \$2,840,000,000. Among the active organizations were 2,389 marketing grain, dry beans, and rice valued at more than half a billion dollars; 2,366 engaged in processing and marketing dairy products valued at \$815,000,000; 945 associations receiving, preparing for market, and marketing fruits and vegetables to the value of \$325,000,000; 556 associations handling cotton and cotton products selling for \$138,000,000; and 2,726 associations purchasing farm supplies to the amount of \$480,000,000. See Elsworth, R. H. and Wanstall, Grace, Farmers' marketing and purchasing cooperatives, 1941-42 marketing season, F.C.A., Misc. Rpt. #4, 26 pp., illus., 1943.

⁶The records of the discontinued associations included in the study constitute but a part of the large collection of historical documents pertaining to farmer cooperation possessed by the Cooperative Research and Service Division now located in the South Building of the U. S. Department of Agriculture.

In connection with a similar study made more than 10 years ago, the writer came near reaching the conclusion that most coöperatives discontinued business because of inefficient management or disloyal members, according to whether an ex-manager or a former member furnished the information. That, of course, is an over-simplification, yet it is worth remembering when one is called upon to determine the cause of a discontinuance.

DISTRIBUTION OF DISCONTINUED ASSOCIATIONS

More than 56 percent of the 14,655 out-of-business cooperatives were located in the 12 North Central States:⁷ 17.1 percent were in the States along the Atlantic Coast, 13.5 percent in the South Central States, and 12.5 percent in the Mountain and Pacific Coast States. There were more than 1,000 discontinuances in each of three States - Wisconsin, 1,155; Minnesota, 1,143; and Iowa, 1,083. Seven other States charged with more than 500 discontinuances each, in the order of their numerical importance, were: Illinois, 914; North Dakota, 648; New York, 599; Missouri, 592; Kansas, 578; Texas, 549; Nebraska, 520. These ten States accounted for 53 percent of all discontinuances.

Geographic Distribution

Division	Associations	
	Number	Percent
West North Central	4,951	33.8
East North Central	3,377	23.1
West South Central	1,292	8.8
South Atlantic	1,190	8.1
Mountain	956	6.5
Middle Atlantic	880	6.0
Pacific	879	6.0
East South Central	686	4.7
New England	444	3.0
Total	14,655	100.0

More than half of the discontinued associations in Wisconsin handled dairy products. Nearly one-third of those in Minnesota were engaged in shipping livestock. Of the 1,083 in Iowa, 485 were livestock shipping associations and 262 were farmers' elevators. Seventy-two percent of the out-of-business associations in Illinois consisted of livestock shipping associations and farmers' elevators. Farmers' elevators also accounted for nearly half of the discontinuances in North Dakota. About half of the associations that went out of business in New York handled dairy products. Associations receiving fruits, vegetables, and nuts, accounted for 78.2 percent, 61.8 percent, and 34.6 percent, respectively, of the total discontinuances in Florida, California, and Texas. In Texas cotton gins also were important among associations going out of business.

⁷Frequently referred to as the Middle West. Many of the successful cooperative enterprises of today are operated by the people of this fertile region.

Eighty-six percent of the total discontinuances were marketing associations and 14 percent purchasing.⁸ The distribution of discontinuances among the marketing groups is as follows: Fruits and vegetables, 2,861 associations; grain, dry beans, rice, 2,812; livestock, 2,586; dairy products, 2,409; cotton gins, warehouses, and marketing associations, 370; all others, 1,567.

YEARS OF ORGANIZATION

In 1863 the first of the associations included in this study - a cheese factory located in Montgomery County, New York - was formed. It continued in business until 1927 - 64 years. Three other New York associations opened their doors in 1865, 1868, and 1869. Five of the associations now out of business were formed in 1870 and by the close of 1900 more than 500 had been organized.⁹ These associations handled cotton, processed milk, sold fruits, vegetables, grain, and livestock and purchased supplies for their farmer members.

Minnesota with 66 associations heads the list of States credited with associations formed prior to 1901. Other States well in the vanguard are: New York, 64 associations; Iowa, 61; and Wisconsin, 55. More than one-half of the early associations were organized in the North Central States.

A tabulation of 12,285 discontinued associations for which year of organization is available shows that 32.5 percent of the organizations were formed during the 52 years ending with 1915; 33.7 percent during the 5 years 1916 to 1920; and 33.8 percent during the period 1921 to 1939 (figure 2).

Peak years for the organization of the out-of-business associations in the leading cooperative States were: 1909, Florida, 58 associations; 1916, North Dakota, 54; 1918, Nebraska, 69; 1919, Kansas, 56; 1920, Iowa, 153, Illinois, 142, Missouri, 107, and Minnesota, 82; 1921, New York, 78, and California, 24; 1922, Texas, 30.

The 5-year periods in which the largest number of the discontinued organizations were formed in specified groups varied but slightly. From 1916 to 1920, 1,054 grain associations were formed, 1,001 livestock, 484 fruit and vegetable cooperatives, and 440 handling dairy products. From 1921 to 1925, 445 vegetable and 299 fruit associations were organized. The 5 years 1916 to 1920 saw the organization of 32 percent of all the marketing associations and 44 percent of the purchasing associations.

The years 1920 and 1921 were a turning point for the farmer cooperative movement in America. Up to that time nearly all the cooperatives organized

⁸The total number of associations known to have been organized prior to 1940 is 26,192. Of this number 81.5 percent were marketing associations and 18.5 percent purchasing. See p. 6 of reference cited in footnote 4.

⁹Years of organization are available for 12,285 of the 14,655 associations.

had been local enterprises serving the farmers adjacent to small shipping points. In the year 1920, however, several large-scale regional cotton associations were formed. These were followed by big tobacco cooperatives, State wheat pools, and other large marketing organizations. The peak year for the number of active cooperatives was 1922 when 14,628 associations are known to have been functioning. This study is largely the story of discontinuance of local independent associations engaged in making butter and cheese; handling fruits, vegetables, and grain; and shipping wool and livestock to terminal markets.

Associations Organized

Period	Number	Percent
1863-1900	523	4.3
1901-1905	397	3.2
1906-1910	1,096	8.9
1911-1915	1,981	16.1
1916-1920	4,140	33.7
1921-1925	2,613	21.3
1926-1930	1,114	9.1
1931-1935	374	3.0
1936-1939	47	.4
Total	12,285	100.0

FARMERS' ASSOCIATIONS ORGANIZED AND DISCONTINUED 1863-1939

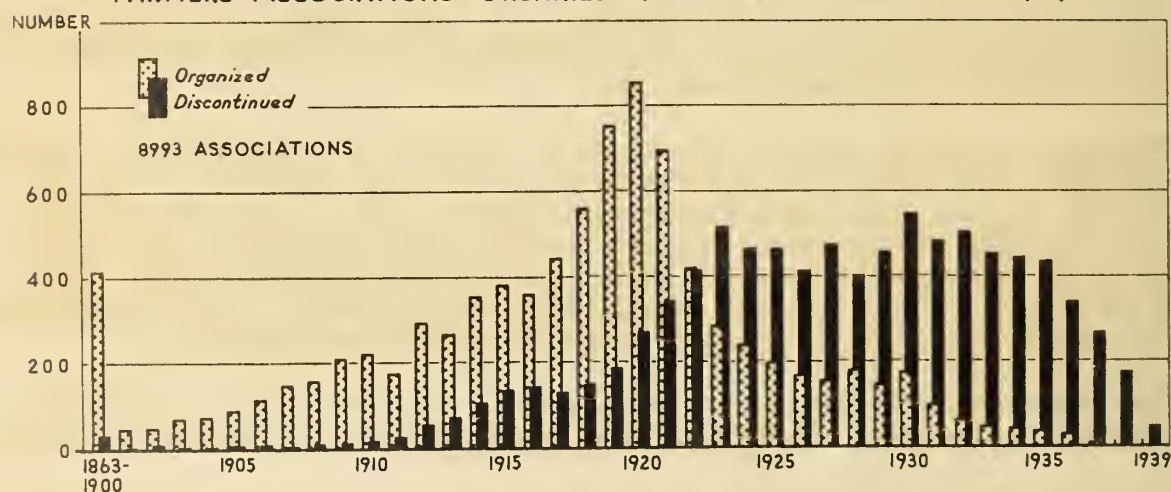


Figure 2. - Data are available for both year of organization and year of discontinuance for 8,993 associations. From this large sample trends can be determined. The number of associations organized yearly increased during the 20-year period from 1901 to 1921. In the latter year the number of associations formed annually began to decrease and the number of discontinuances began to increase. Discontinuances continued at the rate of 400 or more each year through 1935. Even the "prosperity" year of 1929 did not change the trend.

KINDS OF COOPERATIVES

All but 52 of the associations in this study are included in four groups: (1) Marketing, (2) marketing and purchasing, (3) purchasing, and (4) service. The nature of the associations in the first three groups is evident. The service cooperatives include associations that furnish on a fee basis services essential for the production of farm crops and animals, the preparation of products for marketing, the providing of marketing facilities, the policing of farmers' markets, the furnishing of warehousing space and warehousing service, the operating of cold storage plants with or without locker service, and the ownership and operation of transportation facilities. In addition, service cooperatives provide grading, packing, inspection, accounting, auditing, management, publishing, and recreational services.

Kinds of Cooperatives

Group	Number	Percent
Marketing	6,814	46.5
Marketing and purchasing	5,172	35.3
Purchasing	2,077	14.2
Service	540	3.7
All others	52	.3
Total	14,655	100.0

Strictly marketing associations constitute 46.5 percent of the out-of-business cooperatives; associations engaged in both marketing and purchasing are 35.3 percent; purchasing associations are 14.2 percent; and service associations are less than 4 percent.

Nearly 70 (68.7) percent of the discontinued Florida associations were engaged in marketing. Other States where more than one-half of the discontinued associations were in the marketing group, with percentages, are: Wisconsin, 64.9 percent; New York, 61.4; Minnesota, 57.9; Illinois, 56.7; California, 51.5; and Iowa, 51.3.

More than 54 percent of the associations in Kansas were engaged in both marketing and purchasing. The highest percentage shown in the purchasing group was for Nebraska - 28.3 percent; less than 4 percent of the Florida associations were in the purchasing group. An even 27 percent of the Texas associations were classified as service organizations. Most of these ginned cotton.

TYPES OF ASSOCIATIONS

Independent locals constituted more than 90 percent of the discontinued associations. About 6 percent of all locals were members of federations.

Taken altogether the 63 federations, 111 centralized associations, 102 sales agencies, 67 bargaining associations, and 53 subsidiary organizations which discontinued were less than 3 percent of all discontinuances.

Types of Associations

Type	Number	Percent
Independent local	13,345	91.1
Member of federation	910	6.2
Federation	63	.4
Centralized	111	.8
Sales Agency	102	.7
Bargaining	67	.4
Subsidiary	53	.4
All others	4	(1)
Total	14,655	100.0

¹Less than one-tenth of one percent.

Independent local units comprised 89.8 percent of the discontinued associations in the marketing group, 90.5 percent of those engaged in marketing and purchasing, and 96.5 percent of the purchasing group. These figures suggest that numerically the local independent unit was the dominant type of cooperative enterprise.

In California, Florida, and New York, locals that were members of federations were 30.2 percent, 18.8 percent, and 15.5 percent, respectively, of all discontinued associations in those States.

Independent locals constituted the following percentages of the more important commodity groups: All livestock, 98.3 percent; grain, dry beans, rice, 96.9; cotton and cotton products, 94.3; dairy products, 91.4; poultry and eggs, 86.7; fruits and vegetables, 76.9. In the dairy subgroup engaged in bargaining as to milk prices, 96 percent of the discontinuances were centralized associations. More than one-half of the discontinuances among locals handling citrus fruit and nuts were units of federations. All the discontinuances among livestock terminal sales agencies were centralized associations. In the purchasing group independent local associations constituted 99.4 percent of the associations handling general merchandise, 94.8 percent of those distributing farm supplies, and 84.5 percent of those dealing in petroleum products.

CHARACTERISTICS AND PRACTICES

Information pertaining to farmers' discontinued cooperatives is available for (1) incorporation, (2) share capital, (3) patronage refunds, (4) membership agreements or marketing contracts, and (5) the handling of non-member business (table 1).

TABLE 1. - Characteristics and practices of farmers' discontinued associations by number of organizations and percentages, 1875-1939

Characteristics or practices	Associations reporting	Reporting "Yes"	
	Number	Number	Percent ¹
Incorporated	13,140	9,951	75.7
Share capital	13,389	7,603	56.8
Patronage refunds	9,119	4,675	51.3
Contracts	6,784	1,871	27.6
Nonmember business	6,560	4,594	70.0

¹Percentage which those reporting "yes" were of total number.

More than 75 percent of the discontinued associations were incorporated; nearly 57 percent reported having share capital; 51 percent operated on a patronage-refund basis; more than 27 percent used contracts or membership agreements; and 70 percent handled nonmember business.

New England, of the nine geographic divisions, ranked highest in percentages for incorporation, share capital, and patronage refunds. The Pacific division was first in the use of marketing contracts or membership agreements. Approximately 81 percent of the discontinued associations in the West North Central States reported handling business for nonmembers.

Among the larger States with high percentages for incorporated associations were: New York, 90.6 percent; California, 90.5; and Washington, 89.6.

More than 86 percent of the discontinued cooperatives in Kansas issued share capital. Important cooperative States ranking with Kansas were Nebraska, 84.4 percent; Ohio, 72.2; North Dakota, 72; and Washington, 71.

TABLE 2. - Characteristics and practices of farmers' discontinued associations by geographic divisions and percentages, 1875-1939

Geographic Division	Incorporated	Share capital	Patronage refunds	Contracts	Nonmember business
	Percent				
New England	89.4	81.4	60.3	33.1	51.5
Middle Atlantic	86.2	45.0	52.8	46.2	55.7
East North Central	77.3	59.4	42.4	16.0	76.2
West North Central	76.4	64.6	54.1	11.2	80.9
South Atlantic	70.7	38.3	51.3	51.5	54.1
East South Central	51.6	32.6	55.1	49.1	57.8
West South Central	62.1	45.6	54.2	42.9	60.5
Mountain	79.5	60.7	57.8	56.3	58.1
Pacific	89.3	54.3	52.1	62.7	46.1
United States	75.7	56.8	51.3	27.6	70.0

Patronage refunds were paid by 68.8 percent of the associations in Ohio, 67.9 percent of those in Nebraska, 67.4 percent of those in North Dakota, 67.1 percent of those in Kansas, and 63.8 percent of those in California.

Marketing contracts or agreements were more common among discontinued associations in California than among those in other important cooperative States. California's percentage was 70.8, New York's 54.3, and Washington's 52.1.

The cooperatives in most States reported handling business for nonmembers. The percentages among the States with many discontinuances varied from low points of 34.2 and 35.3 percent for Florida and California, respectively, to high points of 93.4 and 91 percent for Nebraska and Kansas, respectively.

Ninety-eight percent of the associations in the tobacco group were incorporated, as were 96.9 percent of those handling grain, dry beans, and rice; 95.7 percent of the nut marketing associations; 94.4 percent of the creameries; 94.2 percent of the associations handling citrus fruits; and 93.9 percent of those selling general merchandise (table 3).

TABLE 3. - Characteristics and practices of farmers' discontinued associations by specified groups and percentages, 1875-1939

Group	Incorporated	Share capital	Patronage refunds	Member contracts	Nonmember business
	Percent				
Cotton	91.0	82.4	46.4	26.9	75.0
Dairy products	86.8	78.5	46.1	21.8	82.2
Fruits, vegetables	69.1	30.5	55.6	65.9	42.7
Grain, dry beans, rice	96.9	94.5	56.2	8.7	93.5
Livestock	43.5	11.3	37.4	8.9	67.1
Nuts	95.7	22.7	51.6	91.4	26.5
Poultry, eggs	59.0	23.5	42.5	57.7	45.0
Tobacco	98.2	71.9	43.3	63.6	36.8
Wool, mohair	44.7	7.1	37.5	62.8	44.4
All marketing ¹	74.3	53.7	49.9	29.6	70.1
General merchandise	93.9	94.2	64.7	6.4	82.7
Farm supplies	69.3	48.3	51.5	16.9	58.2
Petroleum products	90.6	81.4	73.9	5.6	59.5
All purchasing ¹	83.8	74.7	58.9	11.3	69.5
All groups ¹	75.7	56.8	51.3	27.6	70.0

¹Includes associations in addition to those in the groups listed.

The percentages of associations that operated on a share capital basis were as follows: Grain, dry beans, rice, 94.5 percent; general merchandise, 94.2; cotton gins, warehouses, 89.4; creameries, 89.3. Only 7.1 percent of the cooperatives handling wool issued share capital (table 3).

Several of the marketing groups showed that a relatively high percentage of discontinued associations followed the practice of returning patronage refunds. Percentages for the more important groups were: Citrus fruits, 66 percent; livestock associations other than shipping, 65.4 percent; vegetable marketing, 57.6; milk marketing, 57.4; grain, including dry beans and rice, 56.2; deciduous fruits, 51.2; creameries, 50.9; and cheese factories, 35.6. The practices developed during the years by cooperative creameries and cheese factories assured that the greater part of the benefits of joint activity would go to the participants as part of the regular payments for products delivered. Nearly 59 percent of all the purchasing associations distributed patronage refunds. The percentage for those handling petroleum products was 73.9, and for those handling general merchandise, 64.7 (table 3).

During the twenties - the boom period for organizing large-scale centralized associations - it was the custom to include membership agreements or marketing contracts among the legal documents required for setting up new enterprises. Hence 94.4 percent of the discontinued centralized cotton associations, 91.4 percent of the nut marketing associations, and 71.9 percent of the milk bargaining associations reported having their members under agreements, in most cases ironclad contracts. Only 11.3 percent of the purchasing associations depended upon contracts as compared with 29.6 percent for the entire group of marketing organizations.

Most of the discontinued cooperatives relied upon a goodly percentage of nonmember business to help provide the volume necessary for efficient operation. Slightly over 70 percent of the marketing associations and just under 70 percent of the purchasing associations reported nonmember business. More than 93 percent of the farmers' elevators reported nonmember business, but only 23.1 percent of the large-scale centralized cotton marketing associations followed this practice.

MEMBERSHIP OF ASSOCIATIONS

Information is available as to the membership of 12,233 of the discontinued cooperatives. The total number of members reported was 1,992,219. This is an average of 163 members per association. If the average for the associations not reporting membership is the same as for those which reported, the total membership for the 14,655 associations included in the study would be about 2,390,000.

The membership averages for the associations in the different sections of the country varied from 104 for the Middle Atlantic States to 416 for the East South Central States. Among the States with high averages were: Texas, 174 members; Minnesota, 169; California, 165; and Illinois, 159.

Average Membership

State	Associations reporting	Average membership
	Number	
Texas	422	174
Minnesota	974	169
California	328	165
Illinois	808	159
Missouri	514	149
Iowa	936	146
North Dakota	504	112
Kansas	484	106
Nebraska	456	104
New York	499	96
Wisconsin	1,037	77
United States	12,233	163

Discontinuing tobacco associations had much larger memberships than any of the other groups. The average for the 53 associations out of business before 1940 was 4,789. This high average was chiefly because of three large regional associations. Thirty-three regional livestock marketing associations had an average membership of 1,755. Other averages were: 243 poultry and egg associations, 431 members; 127 wool and mohair associations, 147; 2,467 grain, dry beans, rice associations, 151; 1,074 creameries, 96; and 974 associations handling deciduous fruit, 104. The average membership for the 10,466 marketing associations for which membership data were available was 165. The 1,730 purchasing associations had an average membership of 153.

DOLLAR VOLUME OF BUSINESS

In round figures the out-of-business associations at the time of their discontinuance were handling a total annual business of more than a billion and a half dollars. This figure includes the business of all discontinued associations throughout the period, 1875-1939.

Some of the associations went out of business slowly and did not give up hope until the last dollar was gone. Among those which were forced to close their doors in the prime of life were some whose annual sales were in the millions of dollars. The annual business for the 11,425 associations for which information on amount of business was available averaged \$123,000. Of these, 11,146 were local organizations with an average business per association of \$71,000, and 279 were large-scale organizations with an average business of \$2,208,000.

The average amounts of business varied greatly in the different parts of the country and in the different States. Illinois and California led the States in average dollar volume. The average business for all Illinois associations was \$422,000 and for all California associations, \$282,000.

These figures include local associations, large-scale terminal market sales agencies, and large-scale regional associations. Florida followed California and New York came after Florida.

Dollar Volume of Business

State	Average per local	Average for all associations
		\$1,000
Illinois	84	422
California	200	282
Florida	68	154
New York	61	121
Texas	82	116
Minnesota	64	103
Kansas	94	97
Nebraska	81	91
Iowa	79	89
Missouri	61	84
North Dakota	58	65
Wisconsin	36	33
United States	71	123

The high average for Illinois is largely accounted for by a number of ill-fated national organizations set up in Chicago in the early twenties to handle grain. Associations handling deciduous fruit helped to give California a high average. The averages for local associations only were \$84,000 in Illinois and \$200,000 in California.

The averages for the various commodity groups ranged from \$22,000 for 583 cheese factories to \$6,596,000 for five large tobacco marketing cooperatives. The average for 9,661 marketing associations of all kinds was \$125,000 and the average for 1,700 purchasing associations was \$60,000.

MANNER OF DISCONTINUANCE

Farmers' cooperative discontinuances occurred in various ways. Some associations were forced out of business; others merged or consolidated with other organizations, sold their assets at a profit with a feeling of satisfaction, or reorganized with a change of name, objective, personnel, or activities. Data pertaining to manner of discontinuance are available for 10,877 associations out of the 14,655 included in the study.

Roughly 95 percent of the associations discontinued because of loss of membership, loss of business, or for other reasons had no choice but to close their doors. This does not mean that all of these were business failures with losses to creditors. It does mean, however, that the associations failed in the task they set out to accomplish and therefore were

economic and psychological failures so far as their farmer members were concerned, regardless of any dollar gains that may have been made during their active periods.

Manner of Discontinuance

Manner	Associations reporting	
	Number	Percent
Forced out	10,375	95.4
Merged or consolidated	290	2.6
Sold at a profit	183	1.7
Reorganized	29	.3
Total	10,877	100.0

In addition to the associations forced out of business, 183 enterprises were sold as "going concerns" and at a profit. These were not business failures yet their discontinuance may have dampened the ardor of loyal cooperators. Not failures either were the 319 associations that were reorganized or included in consolidations. Although most of the failures were obvious, as were the successes, there were 3,778 associations whose manner of going out of business is not known. Practices employed in trying to remain in business may have obscured the facts essential for determining the true status of these organizations at the time of their discontinuance.

The three Pacific Coast States had the lowest percentage (87.2 percent) for associations forced out of business and the seven West North Central States had the highest (97.2 percent). Perhaps the considerable amount of commercial farming along the Pacific Coast is a factor in the good showing made in that section of the country. The poor showing by the associations in the West North Central States is due to several factors. Among these were the greatly reduced crops during the drought years of the thirties. Most of the cooperatives organized in this area, as well as in the East North Central region, had been set up to operate grain elevators, run creameries, or ship livestock. Technological changes, particularly improved facilities for the individual farmer reaching the terminal markets, had made it increasingly difficult for the local type of enterprise to operate. Those which failed to see the handwriting on the wall frequently were unable to meet their bills when unsatisfactory economic conditions were followed by even more unsatisfactory conditions. Many of the discontinued associations were small enterprises without sufficient share capital, reserves, or surplus to withstand a period of hard sledding.

California, one of the more important States from a cooperative standpoint, made the best showing. Nevertheless 78.5 percent of its discontinued associations were forced out of business. The percentages for some of the other States were: Florida, 89.3 percent; Missouri, 95.7; Texas, 96.4;

Minnesota, 96.6; and Wisconsin, 97.0. Kansas, North Dakota, Iowa, and Nebraska, with many farmers' elevators, also had high percentages of associations forced out of business.

Associations handling citrus fruit have the lowest percentage (78.1) of forced discontinuances. Two of the three States in which citrus associations are located have low percentages and the third citrus State in volume of fruit handled likewise made a good showing.

Other commodity groups with records for forced discontinuance and their percentages are: Wool and mohair, 90.3; poultry and eggs, 92.1; cotton gins and warehouses, 93.3; milk marketing, 93.9; deciduous fruit, 94.1.

Among the groups in which more than 95 percent of the discontinuances were forced are: Creameries, 95.8 percent; livestock shipping associations, 96.4; vegetable marketing, 96.6; grain elevators, 96.6; and cheese factories, 97.4.

Associations handling petroleum products made the best record for organizations engaged in purchasing. Their percentage of forced discontinuances was 92.3 whereas the percentages for associations handling farm supplies and those dealing in general merchandise were 93.0 and 97.5, respectively. Most of the associations handling petroleum products have been organized since 1920. They have operated in a period when the number of automobiles has been increasing and the demand for gasoline has been great. The associations handling general merchandise have usually been stores, and occasionally they have been caught in periods of declining price levels with too large inventories.

YEARS OF DISCONTINUANCE

Year of discontinuance is available for 9,674 of the associations included in the study. It is reasonable to assume that the distribution through the years would be about the same for the associations for which exact data are not available as for the organizations for which the year of going out of business is a matter of record.

Two associations are known to have discontinued in 1875. One was a cheese factory located at Shushan, New York, and the other a strawberry marketing association at Cave City, Kentucky. The first discontinued business because the buyer to whom it was selling did not pay his bills. Twenty-five years later another association with the same name and at the same place started in business and continued for 8 years but had to close its doors for the same reason as its predecessor. The strawberry marketing association went out of business because of "low prices and bad management."

Twenty-nine associations in all discontinued business during the 25 years from 1875 to 1900, inclusive. Eighteen of these were located in New York State and were mostly creameries or cheese factories. This does not mean

necessarily that New York was the leading State for discontinuances; it only means that better records are available for that State for the early years than for most of the other States.

Periods of Discontinuance

Period	Associations	
	Number	Percent
1875-1900 ¹	29	.3
1901-1905	22	.2
1906-1910	48	.5
1911-1915	436	4.5
1916-1920	994	10.3
1921-1925	2,351	24.3
1926-1930	2,396	24.8
1931-1935	2,117	26.0
1936-1939 ²	881	9.1
Total	9,674	100.0

¹Twenty-five years.

²Four years.

The 5-year period, 1911-15, was the first during which there was a large number of discontinuances. The 436 associations closing their doors in that period, however, were less than 7 percent of the average number active during the period. Beginning with 1916, discontinuances became more frequent and by 1921 their rate was one association every 24 hours. Nine hundred ninety-four associations discontinued during the 5-year period 1916-20. For succeeding periods discontinuances were as follows: 1921-25, 2,351; 1926-30, 2,396; 1931-35, 2,517; 1936-39 (4 years), 881.

Associations handling dairy products discontinued in increasing numbers for each 5-year period until 1921-25. The decline in number of organizations ceasing business among fruit associations set in about 1935. Approximately 35 percent of the discontinuances for vegetable associations occurred during the years 1921-25 and about 30 percent of those among grain associations. Forty-five percent of the discontinuances among livestock shipping associations occurred during the 1931-35 period.

Ten-Year Peak Periods of Discontinuances

Just over 51 percent of the associations for which discontinuance dates are available went out of business during the 10 years beginning with 1923 and ending with 1932. More than 400 associations discontinued during each year of the ten. In both the first and the eighth year more than 560 associations went out of business, and in both 1924 and 1927 more than 490 associations closed their doors. During the period 1923-1932,

many of the functions of the independent local association were being taken over by newly-formed, centralized cooperative associations and terminal-market sales agencies.

TEN-YEAR PEAK PERIODS FOR DISCONTINUANCES

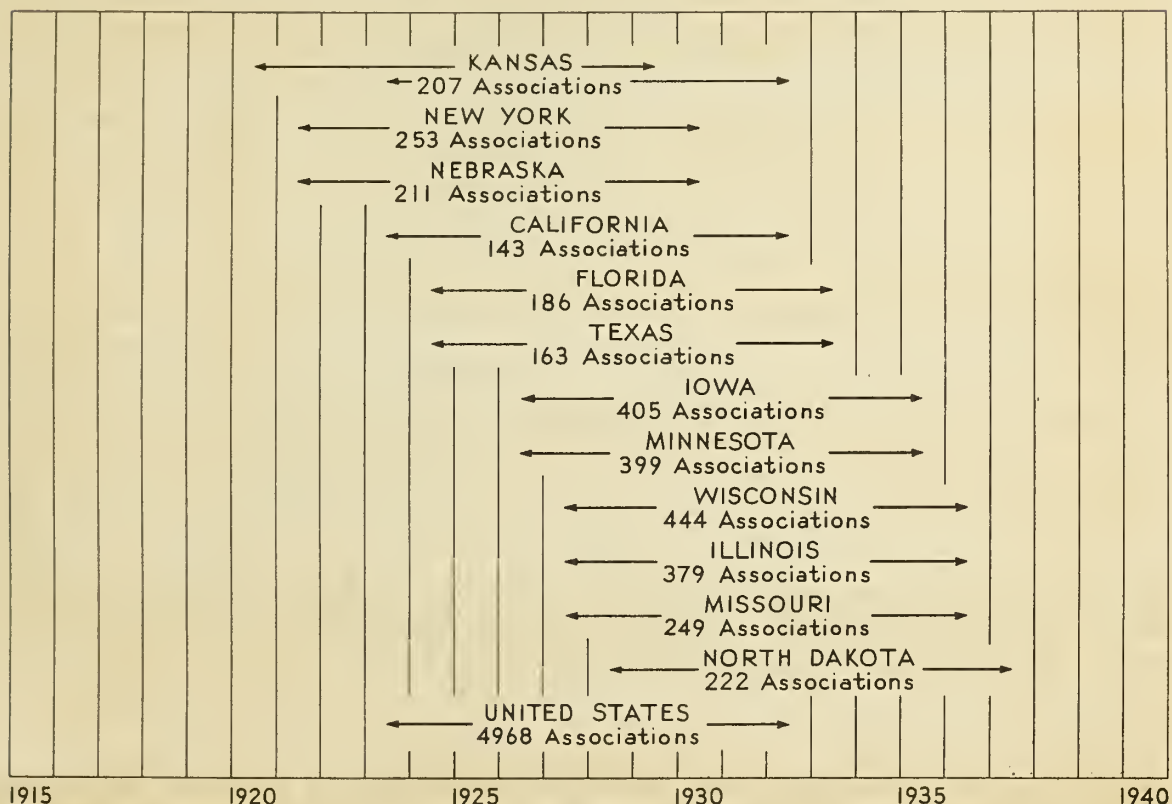


Figure 3. - The peak 10-year period for discontinuances in the United States included the years from 1923 to 1932. The peak periods for the 12 States with the largest number of discontinuances varied from 1920-1929 and 1923-1932 for Kansas, with 207 associations discontinuing during each period, to 1928-1937 for North Dakota with 222 associations discontinuing. The State with the largest number of discontinued associations in its 10-year peak period was Wisconsin with 444.

The 10-year peak periods for the 12 States with the most discontinuances varied from 1920-29 in Kansas to 1928-37 in North Dakota. Discontinuances were most frequent in Wisconsin, the State with the largest number, during the 10-year period, 1927-36. The same period was the peak in Missouri and Illinois.

From 1915 through 1924 the largest number of associations handling dairy products discontinued business, and from 1921 through 1930 associations handling grain and general merchandise went out of business in the largest numbers. The peak period for vegetable, feed, seed, and fertilizer associations was 1922-31. Cheese factories disappeared fastest during the 10 years 1925-34; cotton gins and cotton warehouses, 1926-35; and associations handling deciduous fruit, eggs and poultry, and livestock, 1927-36.

TEN-YEAR PEAK PERIODS FOR DISCONTINUANCES

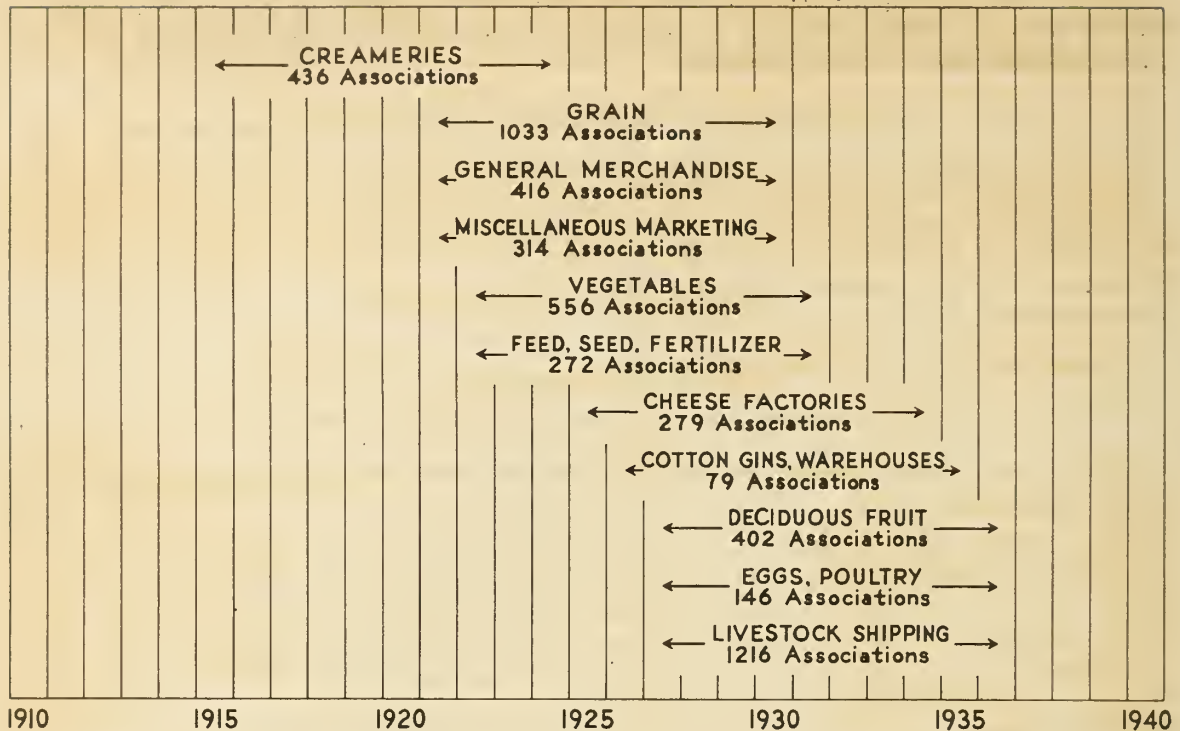


Figure 4. - Ten-year peak periods for discontinuances among the commodity groups varied from 1915-1924 for creameries to 1927-1936 for deciduous fruit, eggs, poultry, and livestock shipping associations. The peak period for all marketing associations was 1926-1935, during which 52.2 percent of the associations discontinued. For all purchasing, the period was 1921-1930, and the percentage, 54.1.

Periods of discontinuance for commodity groups are of interest since they may indicate, to a limited extent, the passing of techniques developed to meet the marketing problems of the pre-automobile economy. For various reasons, neither officers nor members of many of the small, local, autonomous associations for operating creameries, cheese factories, packing sheds, livestock shipping associations, and country elevators seem to have sensed that conditions were changing and that what had been satisfactory in the past would not meet the requirements of the accelerating large-scale economy spreading across the country.

Although technological changes are undoubtedly primarily responsible for a large number of the recorded discontinuances, the depression of 1930 exacted a toll of 566 associations, the largest number for any one year.

Since 1922 the number of operating enterprises has decreased 22.8 percent from a high of 14,628 associations at the close of that year to 11,294 at the end of 1939.¹⁰ The number of active farmers' cooperatives is now (November 1942) 10,550.

¹⁰ Elsworth, R. H. and Wanstall, Grace, Farmers' marketing and purchasing cooperatives, 1863-1939, F.C.A., Misc. Rpt. 40, 36 pp. illus., 1941. See table 12, p. 31.

Annual Rates of Discontinuance

As a result of a recent study¹¹ annual rates of discontinuance for farmers' marketing and purchasing cooperatives are available for the years 1920 to 1939, inclusive. The rates varied from year to year, for different parts of the country, and for cooperatives handling different commodities. They ranged from less than 1 percent of the associations active in a specified year to as high as 19.0 percent. The rate for all associations for the 20-year period was 4.9. The lowest rate of discontinuance for any State was that for Minnesota where 2.9 associations discontinued for every 100 active.

Rate of Discontinuance¹

Group	Rate
Dairy products	3.3
Grain, beans, rice	3.7
Cotton and products	4.6
Nuts	4.7
Wool, mohair	4.9
Livestock	6.7
Fruits, vegetables	8.1
Poultry, eggs	8.4
Miscellaneous	8.2
All marketing	5.0
Purchasing	4.2
All associations	4.9

¹Per 100 active associations for 20-year period.

The highest was in the eight South Atlantic States where nine associations discontinued for every 100 active.

The 20-year rate of discontinuance for the special groups ranged from 3.3 per 100 active organizations for associations handling dairy products to 8.4 for those handling poultry and eggs. The exact rates for the different groups for the 20 years are given in the table on rate of discontinuance.

The highest rate in any year among the special groups was 19 per 100 active associations in 1932 for associations marketing nuts. That year was a critical one for a group of newly formed associations set up to handle pecans.

¹¹See table 11, p. 30, of reference cited in footnote 10. The number of associations on which table 11 is based is larger than the number of discontinuances included in this study. In the case of the associations for which a definite date of discontinuance was not available, a search of the historical and statistical files furnished probable dates of discontinuance. Copies of the report may be had as long as the supply lasts.

The discontinuance rate for all marketing associations reached its peak in 1930 - 7.1 per 100 active associations. Discontinuance for purchasing associations was at its peak in the same year with a rate of 6.7.

LONGEVITY OF DISCONTINUED COOPERATIVES

The number of years of active service (life-years) is one measure for determining the relative success of economic enterprises. Farmers' marketing and purchasing cooperatives stand high when subjected to this test.

Average Number Life-Years

Division	Associations	Life-years
	Number	
New England	277	12.4
Middle Atlantic	601	9.9
East North Central	2,153	11.1
West North Central	3,057	11.4
South Atlantic	698	6.6
East South Central	362	7.0
West South Central	703	6.5
Mountain	597	7.1
Pacific	556	8.9
United States	9,004	9.9

Average Number of Life-Years

State	Associations	Average years
	Number	
Wisconsin	789	12.8
Minnesota	730	12.7
Iowa	625	12.4
North Dakota	411	11.2
Nebraska	336	11.2
Illinois	548	10.6
Kansas	350	10.2
Missouri	368	9.3
New York	428	9.0
California	256	9.0
Texas	290	6.8
Florida	281	6.4
United States	9,004	9.9

Both year of organization and year of discontinuance are available for 9,004 of the farmers' associations which discontinued before the close of 1939. The average length of life for this large group was slightly

less than 10 years. Averages for the associations in different parts of the United States ranged from nearly 13 life-years for Wisconsin associations to less than 5.1 for Wyoming.

New England, of the nine geographic divisions, made the best record for longevity. The average number of life-years for 277 discontinued enterprises in that region was 12.4 years. This showing results partly from the fact that a number of cooperative stores started during the early days of the Grange continued until well into the current century. The West and East North Central States were second to New England in longevity of associations. Their averages for life-years were 11.4 and 11.1 years, respectively. The averages for the other divisions were: Middle Atlantic, 9.9 years; Pacific, 8.9; Mountain, 7.1; East South Central, 7.0; South Atlantic, 6.6; West South Central, 6.5.

Nearly 800 (789) associations in Wisconsin were active for 10,068 life-years, an average of 12.8 years. At the other end of the scale was Mississippi with 76 associations that operated for a total of 340 years - an average length of life of 4.5 years. Between these extremes were 10 important cooperative States with averages as follows: Minnesota, 12.7 years; Iowa, 12.4; North Dakota, 11.2; Nebraska, 11.2; Illinois, 10.6; Kansas, 10.2; Missouri, 9.3; New York, 9.0; California, 9.0; Texas, 6.8; Florida, 6.4.

Cooperative ventures that require relatively large amounts of capital such as creameries, grain elevators, fruit packing plants, and associations for the mixing of feed, manufacture of fertilizer, or refining of petroleum, have on the average longer active lives than enterprises requiring but small capital outlays such as livestock shipping associations, organizations for shipping truck crops, and local units for collecting wool, poultry, and eggs for shipment.

Cooperatives operating creameries made the best showing with 14.9 life-years as an average. Some of the other high records were: Cheese factories, 13.6 years; Grain, dry beans, rice, 12; citrus fruits, 10.2; livestock, 10; cotton gins and warehouses, 9.2; deciduous fruits, 7.9; wool and mohair, 7.0; and vegetables, 5.2.

The average for all marketing associations was 10.1 years and for all purchasing, 8.8 years.

Although longevity records are becoming better year by year,¹² the fact that some cooperatives are short-lived indicates a great economic waste.

¹²During the 3 years, January 1, 1940, to December 31, 1942, inclusive, information pertaining to the discontinuance of 1,282 associations was received. Most of the reports concerned associations that disappeared during the period, although a few were for associations that had discontinued prior to the close of 1939. These associations had to their credit 19,891 life-years, an average of 15.5. The averages for the more important groups were: Grain, dry beans, rice, 22.2 years; dairy products, 19.8; livestock, 15.7; purchasing, 13.4; fruits and vegetables, 11.3; and cotton and cotton products, 9.8. These averages, when compared with those for the 9,004 associations included in the study ending with 1939, suggest that the associations now active are better able to withstand the uncertainties of the future than were those which had to contend with the trend from small-scale to large scale enterprise during the years following 1920 and which also had to face the contracting economy of the thirties.

The cost of reorganizing and rebuilding associations every few years to perform essentially the same functions is borne by farmers, and the price may often render cooperative effort more a burden than a help.

LOSSES BY SHAREHOLDERS AND CREDITORS

Losses of nearly \$22,000,000 were reported by the farmers' marketing and purchasing associations which were out of business as of December 31, 1939. The unreported losses were undoubtedly as great, and perhaps greater, than those for which information is available.

Three kinds of losses were reported: (1) loss of capital by shareholders, (2) loss by creditors, and (3) loss on products. The number of associations reporting kind and amount of loss, and the percentage of the total loss in each group were as indicated in the table on associations reporting losses.

Associations Reporting Losses

Nature of loss	Number	Thousand dollars	Percent
Of capital	1,455	14,999	68.2
By creditors	504	4,026	18.3
On products	273	2,969	13.5
Total reported		21,994	100.0

Much the larger part of the \$21,994,000 was an economic loss. The communities in which the enterprises were located suffered because of the losses sustained by the individuals who were the members of the discontinuing associations. These individuals had provided most of the capital and practically all of the products. In some instances they were also the creditors, having advanced money to the associations with the hope that success for the enterprises was within reach.

Losses of Capital

The loss of nearly \$15,000,000 of capital by 1,455 associations amounted to \$10,308 per association. The averages for different sections of the country and for different groups varied greatly. The highest average among the outstanding cooperative States was \$23,586 per association in Illinois. This high figure resulted from the fact that several large unsuccessful cooperative enterprises were located in Chicago. The lowest average for an important State was \$3,426 for New York, a State in which workable cooperative techniques have long been in use. Among the other highly cooperative States with relatively low averages were Florida, Wisconsin, and Minnesota. The average for California, \$17,562, was high because most of the cooperatives in that State are above the national average as measured by annual dollar business.

The highest average among the commodity groups was \$37,482 for 28 associations engaged in marketing milk. The lowest was for the milk bargaining associations, only two of which reported losses and these averaged \$800. As most of the bargaining organizations do not actually handle products but only negotiate as to the prices to be paid their members, they require little capital and hence have little to lose.

The average losses of capital for some of the other groups were: Grain, 525 associations, \$14,214; creameries, 189, \$6,830; vegetables, 94, \$4,793; deciduous fruit, 55, \$7,396; citrus fruit, 3, \$2,200; poultry and eggs, 24, \$10,604. The average for 1,173 marketing associations was \$10,659.

Purchasing associations had an average loss of \$9,391 for 275 organizations. As a whole the associations in this group were smaller than those in the marketing group. The average for 186 organizations handling general merchandise was \$10,450. The 67 cooperatives furnishing farm supplies had an average of \$6,412 and 10 associations selling petroleum products had an average of \$8,290.

Losses by Creditors

Losses by the creditors of 504 discontinued cooperatives were reported as \$4,025,900 or 18.3 percent of all the listed losses. As a general rule, losses by creditors occur only after the assets, including share capital, have been exhausted. Since many of the discontinued cooperatives did not furnish information pertaining to losses, the probabilities are that the losses sustained were larger than the above figure might lead one to believe.

Among the leading States California had the highest average loss by creditors - \$55,211 per association - and New York the lowest average, \$1,100. The averages for some of the other States ranking high in cooperative activity were: Illinois, \$12,600; Wisconsin, \$5,883; Minnesota, \$5,712; Iowa, \$5,611.

Nearly 400 (395) marketing associations reported losses by creditors in the sum of \$3,370,800, an average of \$8,534 per association. One hundred six purchasing associations reported losses of \$648,900, an average of \$6,122.

Some of the more significant averages in the marketing group were: Milk marketing, 4 associations, \$32,575; deciduous fruit, 38, \$9,024; creameries, 53, \$9,023; grain, 162, \$8,352; vegetables, 44, \$7,148; livestock shipping, 10, \$1,240.

Losses on Products

Losses on products amounting to \$2,969,300 were reported by 273 associations. There is considerable uncertainty, however, as to how the amount of these losses was determined. If the figure is the difference between

what the products were sold for and the amount the associations were able to collect, it is significant. If, however, the figure represents the difference between what the associations hoped to receive for products shipped on consignment and what they actually did receive, it has no real value.¹³

Nineteen cooperatives in the South Atlantic States from which fruits and vegetables were shipped in large quantities on consignment to northern markets reported the highest average loss on products, \$48,853.

Fifteen California cooperatives reported losses on products of \$636,000 an average of \$42,440 per association. The average for 14 Illinois associations was \$16,807, and for 15 Minnesota associations, \$12,153. The lowest average for the leading cooperative States was \$1,626 for 19 associations in Wisconsin. Most of these probably were cheese factories which as a rule are small enterprises.

The averages for associations in some of the commodity groups are: Vegetables, 51 associations, \$20,937; milk marketing, 17, \$16,282; creameries, 38, \$11,247; deciduous fruit, 24, \$10,075; grain, 58, \$9,429; and poultry and eggs, 16, \$5,400. For the 263 marketing associations reporting, the average was \$11,186.

When the reported losses of capital, losses by creditors, and losses on products are added together, the total is less than \$22,000,000 which is about 1 percent of the annual average cooperative business for the 13 years ending with 1939. If the reported losses were increased 10 times, they would still be less than 10 percent of the average annual business.

PREVIOUS STUDIES OF COOPERATIVE DISCONTINUANCES

For many years agricultural leaders, research workers, and farmers have been asking, "Why do cooperatives fail?" Answers to this question have appeared in many forms - in formal discussions, in lists of causes of failure, and in analytical papers concerned with the general problem of cooperative discontinuance - but always the answers have been incomplete, nor does this study supply the final answer. It does, however, provide a considerable quantity of statistical data which may be helpful to those who have an irresistible desire for truth.

That cooperative discontinuance has long been a matter of concern is evidenced by a list of "causes of failure" appearing in a book published in England in 1884.¹⁴ The authors enumerated 19 causes and then added a "great" cause. Most of the 19 causes can be placed logically under

¹³It was hoped to supplement the statistical data with case studies but conditions were not favorable.

¹⁴Acland, Sir Arthur H. D., and Jones, Benjamin, Working men co-operators, 136 pp., London, Cassell & co. Ltd., 1884. See p. 73.

some one of the headings included in more recently prepared classifications. The "great" cause is set forth as follows: "another and great cause..... is the heretofore too common idea that cooperation was a new way of transacting business, whereas its division of net earnings is the only thing actually new about it." Many of the cooperative leaders of today will insist that cooperation is much more than a device for distributing earnings.

Discontinuances in the United States

Dr. O. B. Jesness in 1918 set forth in an unpublished manuscript what appeared to him to be the principal causes of failure. The list is as follows:

- | | |
|----------------------------|-------------------------------------|
| 1. Insufficient business | 8. Dishonest management |
| 2. Insufficient capital | 9. Inadequate accounting methods |
| 3. Insufficient membership | 10. Lack of audit |
| 4. Lack of interest | 11. Too liberal extension of credit |
| 5. Lack of loyalty | 12. Competition |
| 6. Lack of confidence | 13. Capital stock in hands of a few |
| 7. Inefficient management | |

A. W. McKay, now of the Cooperative Research and Service Division, after analyzing 1,000 defunct associations, prepared a paper in 1924¹⁵ in which he classified causes of discontinuances in four categories: (1) Insufficient business, (2) incompetent management, (3) lack of loyalty, and (4) specific conditions. Describing the problem in general, he concluded with "No one can study the failures of cooperative organizations without seeing clearly that the mistakes they make are the same old mistakes that have wrecked business concerns for hundreds of years. Cooperatives do not fail because they are cooperatives, but because they are business enterprises, subject to business hazards. The preventative, in a few words, is better business practices."

An Englishman, L. F. Easterbrook, in 1925, broke away from the more popular listing of causes of failure and discussed the problems peculiar to agricultural cooperation, together with the limitations of cooperative activities.¹⁶ This approach was a real contribution because it established certain causal relationships in the failure process. Easterbrook discovered that in England three conditions contributed to making the introduction of cooperation difficult: "(1) The lack of extreme necessity to combine; (2) the difficulties of decentralization and the internal distribution with dealers and markets always at hand; (3) strong national prejudice in favor of independent effort and desire for a speculative element."

¹⁵McKay, A. W., What killed the co-op? Farm Journal, Philadelphia, Pa., Nov. 1924, p. 8.

¹⁶Easterbrook, L. F., Why has agricultural co-operation failed? Nineteenth Century and After, Sept. 1925, pp. 335-345.

In 1926 a tabulation was made of the reasons that had been given for the discontinuance of 997 farmers' cooperatives. The reasons and the relative frequency for each as determined by percentages were: (1) Inefficient management, 42.0 percent; (2) insufficient working capital, 13.8; (3) insufficient business, 13.5 (4) too liberal credit, 10.0; (5) voluntary dissolution, 6.8; (6) dishonest management, 4.4; (7) acts of providence, 3.6; (8) unfair competition, 1.3; (9) all others, 4.6; total 100 percent.¹⁷

Discontinuances in Canada

An intensive 25-year survey of discontinued farmers' cooperatives dealing specifically with purchasing associations was completed in 1939 by the Co-operation and Markets Branch, Province of Saskatchewan, Canada.¹⁸ The results of this study indicate that mismanagement, or lack of proper management, accounted for the largest single group of failures. Size of the association, as measured by number of members, appears to be significant, since the highest proportion of failures was among relatively small associations.

After working closely with many cooperatives through good times and bad for nearly a score of years, J. E. Wells, Jr., Farm Credit Administration, Washington, D. C., made the following statement, "Broadly speaking, fundamental causes of failure, except for catastrophes such as war, drought, and the like, may be listed as: Excessive competition, unprofitable expansion, a change in the public demand for the commodity, the distribution of capital when savings have not been actually realized."¹⁹

The references given in no way cover the available literature on the subject of cooperative failures or business discontinuances;²⁰ they are cited only as part of the record of studies that preceded this contribution to the subject.

REASONS GIVEN FOR DISCONTINUANCE

This tabulation is based on 11,272 reasons given for discontinuance by approximately half of the 14,655 out-of-business associations of record as of December 31, 1939. It seems logical to infer that the reports made

¹⁷Data in files of Cooperative Research and Service Division, Farm Credit Administration.

¹⁸Turner, A. H., Co-operative purchasing associations in the Province of Saskatchewan, Pt. 1, Historical and statistical analysis of co-operative purchasing associations for the 25 year period (1914-1938), Saskatchewan Dept. of Agriculture, Co-operation and markets branch, Bul. 95-A, Regina, Canada. See pp. 17-28.

¹⁹Wells, Jr., J. E., Sizing up your cooperative, F.C.A., Cir. E-18, 13 pp., 1939. See p. 13.

²⁰Statistical material pertaining to farmers' "out-of-business" marketing and purchasing associations will be found in the following Federal publications: U. S. Dept. of Agr., Dept. Bul. No. 1302, 76 pp., illus., 1925, tables 64-70; U. S. Dept. of Agr., Tech. Bul. 40, 98 pp., illus., 1928, p. 65; Federal Farm Board Bul. No. 9, 91 pp., illus., 1932, pp. 67-70, appendix, tables 12-14; F.C.A., Misc. Rpt. 40, 36 pp., illus., 1941, p. 28.

for 7,376 associations are valid for the remaining organizations, and that the percentages of frequency for the different reasons will hold good for the majority of the associations included in the study.

The reasons given for the discontinuance of a cooperative and the real causes underlying the discontinuance may not be the same. The reasons - the classification of which is the purpose of this section of the study - are the opinions of interested and disinterested individuals. These opinions may or may not include the real cause or causes for the termination of a cooperative effort. They may only indicate the nature and weight of the "last straw" which made it impossible for an association to continue. Without doubt some of the replies received represent mature reflection and an effort to set forth intelligently the series of mistakes, unfortunate circumstances, or other factors which separately, or in combination, caused the cooperative structure to collapse.

If it had been possible to make case studies of typical discontinuances at the time of their occurrence, there would now be at hand highly valuable and helpful information for the cooperative leaders of today.²¹ This would be particularly true for large-scale enterprise of which there are about 400 included in this study. Since approximately 97 percent of all the discontinued associations were independent locals or units of federations, probably the information supplied is approximately correct for this group, although it is lacking as to the weight of the various contributing factors, some of which may have been of vital importance.

With the shortcomings of the data fully realized a more accurate evaluation of the statistical material can be made. A classification and tabulation of the 11,272 reasons reported for discontinuance showed that they represented less than 200 different reasons. One of these was given 1,234 times, another 1,161 times and so on down the list to those that were given only once. The frequency with which the different reasons were given is of real importance in trying to determine the causes of cooperative discontinuance.

The reasons given for going out of business have been tentatively classified in eleven rather broad groups, and the frequency for each with its percentage of the total is given in the table of reasons reported for discontinuance.²²

Shortcomings of management and lack of continued membership support are of nearly equal importance as causes for cooperative discontinuance. The next highest frequencies are only a little more than half as numerous as the management and membership factors, and none of the remaining frequencies are as much as 10 percent of the total number.

²¹ An example of a case study is Scanlan, J. J., and Tinley, J. M., Business analysis of the tobacco growers' cooperative association, U. S. Dept. of Agr., Cir. 100, 151 pp., illus., 1929.

²² The thanks of the authors are due Dr., W. W. Fetrow, K. B. Gardner, H. M. Bain, Dr. Joseph G. Knapp, and H. C. Hensley of the Cooperative Research and Service Division for aid in preparing the classification.

REASONS GIVEN FOR COOPERATIVE DISCONTINUANCE

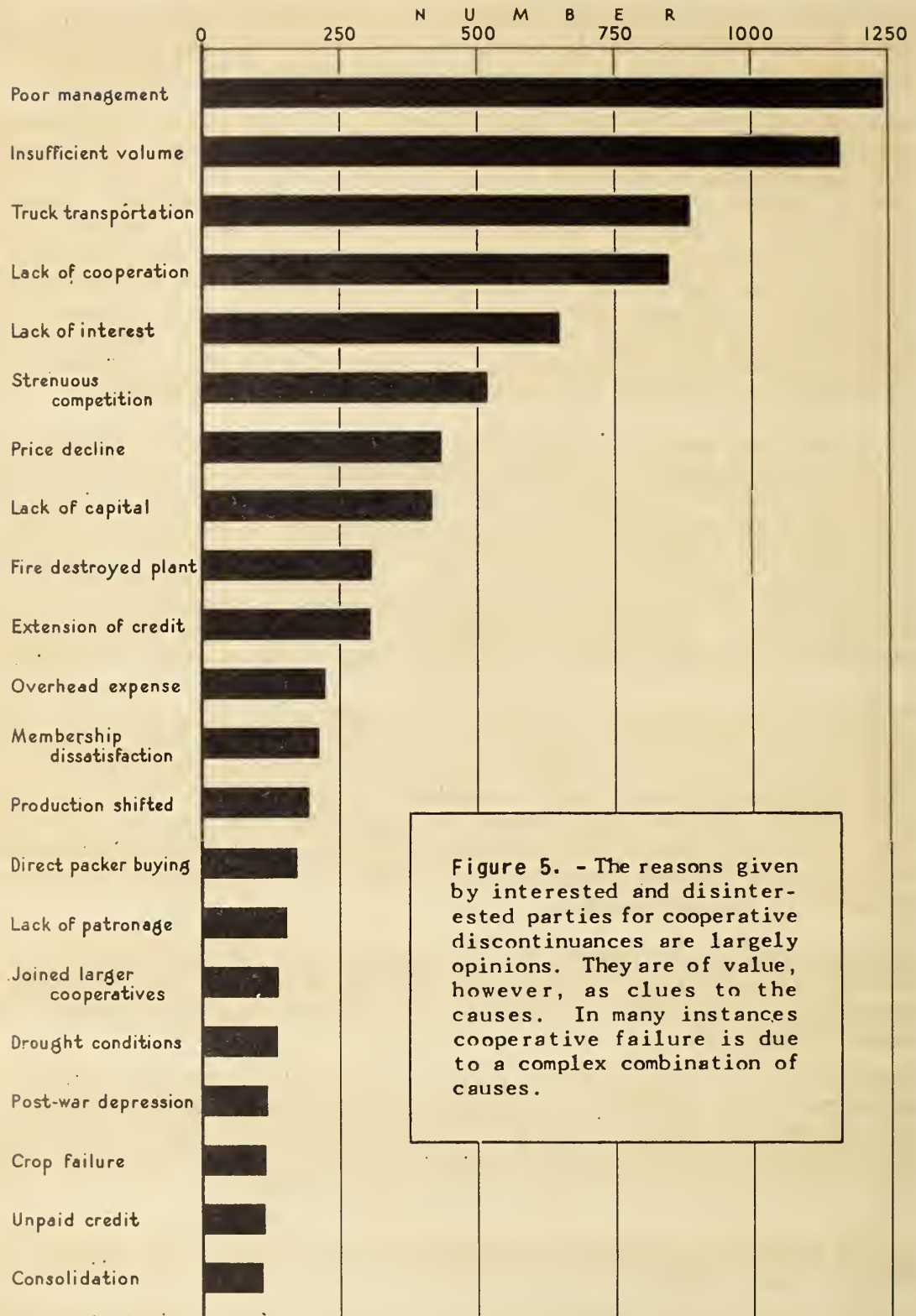


Figure 5. - The reasons given by interested and disinterested parties for cooperative discontinuances are largely opinions. They are of value, however, as clues to the causes. In many instances cooperative failure is due to a complex combination of causes.

Reasons Reported for Discontinuance

Reasons ¹	Frequency	Percent
Difficulties in the field of management	2,234	19.8
Difficulties in the field of membership	2,220	19.7
Natural or unavoidable causes	1,231	10.9
Insufficient business for efficient operation	1,161	10.3
Financing and credit difficulties	1,079	9.6
Transportation problems	1,020	9.1
Opposition from competing enterprises	1,003	8.9
Declining prices	614	5.4
Consolidations and mergers	357	3.2
Technological changes	135	1.2
All others	218	1.9
Total	11,272	100.0

¹Arrayed according to frequency.

The items included in each of the eleven groups and the frequency for each item are as follows:

Difficulties in the Field of Management

Reason	Frequency	Reason	Frequency
Ineffective management	1,290	Overpayments for products	19
High overhead	224	Delay in payments to growers	18
Inadequate accounting and auditing	99	Products not paid for by commission men	18
Dishonest officials	73	Insufficient earnings withheld	18
One-man organization which failed without him	60	Operating margins too narrow	15
Speculation	45	Directors were manager's "rubber-stamp"	13
Too high operating costs	30	Overpromotion by organizers	13
Poorly located plant	30	Monopoly complex with price- control schemes	10
Cooperative not suited to prevailing conditions	29	Lack of educational program	10
Unsatisfactory marketing methods	26	Control gained by nonproducers	10
Looseness of organization	21	Over-advances on deliveries	10
Lack of young members	21	Manager unsympathetic to cooperation	8
Inability to find markets	21	Dissension among directors	7
Too expensive equipment	21	Other	56
Inability to obtain satis- factory manager	19		
Total			2,234

Difficulties in the Field of Membership

Reason	Frequency	Reason	Frequency
Cooperation not understood	849	Members sold outside of association	37
Lack of interest in cooperation	650	Members discouraged by early reverses	21
Dissension among members	213	Deliveries fell off with lower prices	12
Members failed to patronize association	155	Members failed to pay for share capital	12
Lack of confidence by members	84	Payments by association slow; members sold for cash	11
Control lost to special-interest group	70	Members felt that private owner could run plant more efficiently	5
Desire of members to handle own products	42	Other	20
Members delivered low-grade products	39		
Total			2,220

Natural or Unavoidable Causes

Destruction of plant by fire	307	Unsatisfactory policy of overhead organizations	39
Production shifted to other lines	195	Shareholders quit farming	26
Crop failure due to drought	137	Production costs too high compared with other areas	24
Crop failure	115	Injury to orchards or crops by freezes	21
Low production	99	Damage to crops by insects	13
Agricultural depression	82	Other serious losses	12
Failure of overhead organization	51	Legislation making it impossible to continue	12
No further need for cooperative	47	Flood	5
Bank failure causing loss to members	46		
Total			1,231

Insufficient Business for Efficient Operation

Total	1,161
-------------	-------

Financing and Credit Difficulties

Working capital lacking	417	Financing facilities not satisfactory	38
Too liberal credit to members	304	Association heavily in debt	30
Advances to members not repaid	112	Capital insufficient	28
Association funds in bank failure	47	Bank loans too easily obtained	27
Operations improperly financed	41	Association loans called	26
		Other	9
Total			1,079

Transportation Problems

Reason	Frequency	Reason	Frequency
Development of direct auto-truck shipments made local shipping associations unnecessary	888	Local buyers with trucks operated more efficiently than local associations	47
Poor and costly railroad service	54	Discontinuance of railroad service from local shipping point	31
Total		Total	1,020

Opposition From Competing Enterprises

Inability to meet competition	517	Numerous nearby market outlets	29
Direct buying by interior packing houses	172	Too many cooperatives in a limited area	29
Private buyers paid higher prices	87	Boycotting of association by tradesmen and buyers	25
Competition of large-scale condenseries	52	Cash buyers too big a temptation	21
Competition of rival cooperatives for members and business	52	Antagonism of existing agencies	19
Total		Total	1,003

Declining Prices

Decline in prices relative to general price level	432	Inventory loss due to price decline	41
Sharp decline after World War I	118	Production decreased as price declined	23
Total		Total	614

Consolidations and Mergers

Members joined a larger organization	139	Members sold business at a profit	91
Association merged with another advantageously	109	Association discontinued to make way for new organization	18
Total		Total	357

Technological Changes

Members shifted to whole-milk production	94	Institutional and technical changes made facilities obsolete and inadequate	15
Local livestock auctions reduced volume of local shipping associations	19	Farm land subdivided for urban purposes	7
Total		Total	135

Miscellaneous Reasons

Reason	Frequency	Reason	Frequency
Organization never operated	74	Set up as temporary organization for specific need	7
Not a cooperative	29	Association split to form two or more organizations	7
Organized without consideration as to needs of a cooperative	17	Members needed money invested in association	5
Failure of affiliated enterprise	9	Other reasons	70
Total			218
Grand Total			11,272

CAUSES FOR COOPERATIVE DISCONTINUANCE²³

The approach to cooperative discontinuance in the preceding sections has been that of the statistician. More than 11,200 reasons for farmers' associations going out of business were examined, classified, and presented for further study. The real causes for discontinuance, however, are too elusive and frequently too psychological in character to permit complete reliance on conclusions obtained by numerical counts and the determination of percentages. Hence some nonstatistical material is submitted as being worthy of consideration.

Most of the causes for discontinuance of farmers' cooperatives are the same as for the failure of other enterprises concerned with man's daily needs for food, clothing, shelter, transportation, and recreation. Because the patrons of a cooperative are the cooperative, there are also possibilities for failure that are peculiar to the cooperative method of transacting business.

The following tentative classification of causes of failure may be of aid in future studies of cooperative discontinuances:

1. Leadership neither able nor resourceful
2. Management ineffective
3. Members neither understood nor practiced cooperation
4. Associations could not adjust to new conditions
5. Membership rejuvenation neglected
6. Cooperation discarded
7. Promoter activity
8. Unavoidable causes

Leadership Neither Able nor Resourceful

Many cooperative discontinuances have been caused by mediocre, unimaginative, and visionless leadership.²⁴ As here used, leadership is much more

²³This section suggesting a classification of causes, as contrasted with reported reasons, is an independent contribution from R. H. Elsworth.

²⁴Leadership may rest in the president, some member of the board of directors, the board as a whole, a hired manager, or all of these functioning as a unit.

than management. It is on a higher level, thinks in larger terms, peers farther into the future, and plans for an ever widening field of activity with more diversified benefits for an increasing membership. The disappearance of many a cooperative has been accounted for in such terms as "insufficient business" and "too strenuous competition" when the real cause was the lack of resourceful leadership. Leadership is directly responsible for efficient management, for education of the members as to the principles and practices of cooperation, and for instilling in the membership a desire to translate cooperative principles into action. An association without able leadership is doomed to drift on "a sea of troubles."²⁵

There is no definite line between leadership and management. Each blends into the other. For each individual there is a point where the two forces fuse, resulting in a complex that may be strongly or weakly favorable to cooperation. In the course of time it may be possible to index personalities on the basis of cooperative usefulness.

Management, for most cooperatives, is primarily concerned with the mechanics of operation. Hence managers devote themselves largely to such problems as quality of products, grading, packing, loading, shipping, advertising, bargaining, pricing, selling, financing, collections, accounts payable, distribution of savings, accumulations of reserve, depreciation, freight rates, insurance, taxes, legal regulations, litigation, and the continuous efficient functioning of the internal groups responsible for the daily operation of the enterprises.

Management Ineffective

Ineffective management has taken a heavy toll among cooperatives. Because their management was unable to master problems connected with selling, buying, financing, selecting employees, changing business practices, declining prices, and many other difficulties, cooperatives have been unable to remain in business.

Members Neither Understood nor Practiced Cooperation

In the case of a large number of discontinuances the members failed to give full support to their cooperatives. They may have been uninformed as to their parts in the joint undertakings or perhaps they did not take seriously the responsibilities that were justly theirs. Possibly the leadership and the management both failed in the full performance of their duties. The remedy for the shortcomings of membership would seem to be more education, and then more.²⁶

²⁵ Recently the writer attended an emergency meeting of the membership of a cooperative that was sliding downhill fast. Its greatest asset was its leadership. The meeting closed with the members in high spirits, determined to win out despite the odds against them.

²⁶ A reviewer of this section of the manuscript commented "To my mind the most effective kind of education - the only kind in the fullest sense - is participation."

Associations Could Not Adjust to New Conditions

Since the beginning of time continual change has been one of the certainties. Those forms of life which could not adjust to new environments are extinct. By the same token the habits, customs, and institutions of men have to be amenable to change if they are to survive. Cooperatives are no exception to the rule.

Hundreds of cooperative associations formed as the result of many days of ceaseless effort have rendered valuable services for a few years and then have been cast on the scrap pile because they were unable to function under a new set of conditions. An outstanding illustration of this cause of discontinuance is the livestock shipping associations, organized to send livestock to market by rail, that failed to adjust to the changes brought about by motor trucks and hard surfaced roads. Nearly 900 of these associations had disappeared before a new technique was developed. Now, after more than a decade and at considerable expense, new associations to operate under existing conditions are being set up to replace those that were abandoned.

Membership Rejuvenation Neglected

Although it is not necessary, many cooperatives lose vitality with the passing of the years and not a few actually die of old age.²⁷ Disintegration can be prevented by the constant acquiring of new blood. Men and women young in both spirit and years can be added to the membership, elected to boards of directors, and included among the employees. Unless this is done cooperatives are likely to get out of tune with the times and those who should be patrons hurry by while the associations become feeble and their cash registers become rusty. Rarely has the lack of fresh blood been given as a reason for cooperative discontinuance because the real facts have been overshadowed by the particular incident that spelled "finis."

Cooperation Discarded

Frequently the names of "going concerns" have been crossed off the list of active associations because managements have insisted that the organizations were not cooperatives. An inspection of the records often indicates that when the associations were started, 20, 30, or 40 years ago, it was intended that they be cooperatives. The change to private profit enterprise is believed to be due in some cases to the failure of the leadership to secure cooperative-minded persons as replacements for the members lost because of (1) leaving the community, (2) no longer needing marketing or purchasing services, (3) ceasing to be cooperative-minded, or (4) death. Rather frequently when the membership has dwindled to a few "old timers," these dependables and the management conclude that it

²⁷ The files of the Cooperative Research and Service Division contain cases that clearly fall in this category. Furthermore the writer has visited cooperatives that were definitely in their dotage.

has been their brains, patronage, and energy which built up net worth, and that it is only reasonable that their reward be the property and good will which may, at least in a small way, reimburse them for many years of faithful service. Then profits to individuals are substituted for patronage refunds and another cooperative has disappeared. This technique is also a favorite one with unscrupulous "insiders."

Promoter Activity

Promoters are responsible for a large number of cooperative discontinuances. This is true although the word "promoter" is not found in the long list of reasons given on pages 29 to 32.

In the nineties salesmen for farm machinery were zealously engaged in promoting cooperative creameries wherever there were farmers whose notes were good at the bank, regardless of whether there were cows enough within a hauling radius to supply the milk required for successful operation. The promoters discounted the notes and with the proceeds erected attractive buildings, installed machinery, and turned over the plants to the farmer owners, along with the problem of obtaining enough milk for the plants to operate.²⁸ As most of these cooperatives were organized and closed out before the art of collecting statistical information had been perfected, their relative importance as discontinuances is unknown. Perhaps there were several thousand, in which case the losses to farmer-members would be in the millions of dollars.

Wisconsin, Iowa, and Minnesota farmers became interested in slaughtering and meat packing about 1913 and were induced to take over old plants from private packers and undertook to operate them cooperatively. The associations organized to conduct the businesses were short-lived. Their discontinuance was caused by the farmers' lack of experience in handling white elephants.

Again, in the early twenties, farmers were persuaded to form large-scale centralized associations which, in some cases,²⁹ proved to be boomerangs that cost in cash and worry more than they were worth.

Promoter activity does not appear in the statistics under the reasons for discontinuances. In every case the would-be-cooperators were persuaded to do things which were not to their best interest, although in some cases those who did the persuading may have believed that they were offering the farmers a great opportunity.

Unavoidable Causes

Natural and unavoidable causes of cooperative discontinuances have been only about 11 percent of the total number (see p. 30). As techniques

²⁸The writer first learned about cooperation when four cooperative creameries were established in a Michigan county with only a few cows per farm.

²⁹Several of the enterprises have been outstanding successes.

are developed for the extension of cooperative insurance to more types of hazards perhaps there will be fewer discontinuances in this category.

SUMMARY

Many cooperatives are more than organizations for selling and buying commodities and obtaining services. They are community institutions which handle commodities, take in and pay out money, distribute savings, carry on educational work, promote wholesome recreation, maintain morale, and promise much in the way of a better economic system.

When one of these institutions closes its doors, the repercussions are more far reaching than when a private profit concern handling about the same volume of business ceases to operate. The discontinuance of a cooperative directly affects a relatively large number of individuals - the member-patrons who are the owners of the enterprise. The loss of the invested capital falls upon them as does also the loss of the intangible benefits derived from working together. In addition to the loss of accumulated savings, the shock to the community frequently inhibits it for some time from further efforts in behalf of improved economic conditions. This impairment of morale, although not easily measured, is a loss that is both social and economic.

Cooperation as an economic technique does not fail as frequently as do the men and women who attempt to use this technique without knowledge of its limitations as well as its many possibilities. Their sins of commission and omission are many. The greatest of these is that they have not mastered the fundamental principles of cooperation nor schooled themselves sufficiently in the application of those principles. Another of their shortcomings is that they have not practiced the art of cooperating sufficiently to acquire a reasonable stock of cooperative experience.

Despite the frailties of cooperators it is an established fact that the average length of life for the discontinued associations included in this study was approximately 10 years. The average period of activity for the 10,684 associations of record on the last day of December, 1942, was 20.5 years. The averages for some of the special groups were: Dairy products, including cheese factories, creameries, milk processing, and marketing associations, 27.7 years; grain, dry beans, and rice cooperatives, 26.2 years; livestock shipping associations and terminal-market sales agencies, 18.9 years; fruit, vegetable, and nut associations, 18.4 years; and associations handling wool and mohair, 17.3 years. The average for all marketing associations was 22.5 years. Such records discredit any idea that cooperation is a failure, even though some individuals may fall short. Farmer cooperation is a success and the immediate task is primarily that of orienting all would-be cooperators, whether they wish to market their crops or purchase their supplies through cooperative enterprises.

§§§§

SELECTED LIST OF REFERENCES³⁰

1. 1884. Acland, Sir Arthur H. D., and Jones, Benjamin. Working men co-operators: what they have done, and what they are doing. 136 pp. London, Paris & New York, Cassell & co., ltd. See p. 73. [Ed. 7, 1936]
2. 1888. History of cooperation in the United States. 540 pp. Baltimore, Johns Hopkins university. (Johns Hopkins university studies in historical and political science, v. VI) See contents.
3. 1913. Ford, James. Co-operation in New England, urban and rural. 237 pp. New York, Survey associates, inc.. See pp. 64-71.
4. 1922. Why some farmers elevators have failed. Amer. Coop. Jour. 17(6): 15-16.
5. 1924. McKay, A. W. What killed the co-op? Farm Journal 48(11): 8, 91.
6. 1925. Easterbrook, L. F. Why has agricultural co-operation failed? Nineteenth Century and After 98(583): 335-345.
7. 1927. Parker, Florence E. Cooperative movement in the United States in 1925 (other than agricultural). 165 pp. U. S. Dept. of labor, Bureau of labor statistics, Bul. 437 Miscellaneous series. Washington, U. S. Govt. print. off. See pp. 96-103.
8. 1927. Thomsen, F. L., and Thorne, G. B. Cooperative marketing for Missouri. 97 pp. Mo. Agr. Expt. Sta. Bul. 253. Columbia. See pp. 42-51.
9. 1930. Gatlin, George O. Elements of cooperative marketing. 3 pp. Corvallis, Oregon State agricultural college, Extension service. Oct. 1930. See p. 3.
10. 1937. Froker, Rudolph K., and Knapp, Joseph G. Farmers' purchasing associations in Wisconsin. 118 pp. U. S. Farm credit administration, Cooperative division, Bul. 20. [Washington, D. C., U. S. Govt. print. off.] See pp. 26-28.
11. 1938. Hedrick, W. O. A decade of Michigan cooperative elevators, 1925 to 1935. 95 pp. Mich. Agr. Expt. Sta. Spec. Bul. 291. East Lansing. See pp. 10-15.

³⁰ In addition to this brief list of references prepared by Miss Florence C. Bell of the Cooperative Research and Service Division, a separate mimeographed bibliography (Miscellaneous Report No. 66) containing approximately 125 items, may be obtained from the Cooperative Research and Service Division, Farm Credit Administration, United States Department of Agriculture, Washington, D. C.

12. 1938. Turner, A. H. Co-operative purchasing associations in the Province of Saskatchewan. Pt. 1. Historical and statistical analysis of co-operative purchasing associations for the twenty-five year period (1914-1938). Saskatchewan Dept. of agriculture, Co-operation and markets branch, Bul. 95-A. Regina, Canada, n. d. See pp. 17-28.
13. 1939. Burley, Orin E. The consumers' cooperative as a distributive agency. 338 pp. New York and London, McGraw-Hill book co., inc. See pp. 237-246.
14. 1939. Elsworth, R. H., and Wanstall, Grace. Farmers' marketing and purchasing cooperatives, 1863-1939. 36 pp., processed. U. S. Dept. of agriculture, Farm credit administration, Cooperative research and service division, Misc. Rpt. 40. See pp. 8-12, 28, 29, 30, 34.
15. 1940. Gardner, Kelsey B. An unreasonable comparison. News for Farmer Cooperatives 7(1): 14, 28. Apr. 1940.
Presents data on rates of failure for agricultural cooperatives and commercial enterprises.
16. 1942. Waroasse, James Peter. Problems of cooperation. 212 pp. New York, Island press.
Conclusions are based on a study of cooperatives that "lost their way."

